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SIPDIS

FROM U.S. MISSION TO THE UN AGENCIES IN ROME

AMEMBASSY BEIJING FOR AMBASSADOR RANDT  
USDA/FAS BEIJING FOR MINISTER COUNSELOR MAURICE HOUSE  
STATE FOR IO A/S HOLMES, EAP/CM  
USDA/FAS FOR U/S PENN AND MARY CHAMBLISS  
USAID FOR DAA/DCHA GRIGSBY  
NSC FOR JMELINE

E.O. 12958: N/A

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SUBJECT: WFP SCHOOL MILK PROPOSAL FOR CHINA

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Summary  
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1. WFP plans to phase out its operations in China at the end of 2005, and remains hopeful that China will become a major food aid contributor in the future. In 2001, WFP approached USDA related to a one-time 100,000 metric ton donation of Dry Skimmed Milk powder to support Chinese school feeding efforts in Western China 2002-2007. In 2003, a request for 10,000 mts of milk powder was made, again to support school feeding. The requests were turned down due to inability to find funding to pay support costs on a development project. In Mission's view, as we enter the "home stretch" on WFP efforts in China, school feeding may be a good legacy to leave behind. End summary.

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Background  
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2. While China has achieved remarkable economic growth over the past two decades, wide regional disparities in income and living standards persist, leaving the central and western provinces significantly poorer than the coastal regions. There still remain an estimated 100 million poor people in China living on less than US \$1 dollar a day. Poverty is most acute in remote and mountainous areas, predominantly populated by ethnic minorities.

3. WFP is presently operating its CY 2001-2005 Country Program (CP), which the Executive Board approved in February 2001. The main objectives of the CP are:

- Focus on food-insecure minority communities in China's western provinces;
- Integration of targeting and M&E (monitoring and evaluation) to demonstrate results of food assistance;
- Focus on activities which contribute to closing the gender gap;
- Move away from large-scale agricultural sector infrastructure works in favor of investment in human capacity (training, education) and asset creation under community or individual control;
- In view of a gradual phase out of development assistance: increase GOC contributions to WFP - transfer food assistance capacity and approaches to the Government of China (GOC).

4. WFP's activities in China are aimed to bring about sustainable improvements in food-security to some 5.2 million of the poorest people in the country. The corresponding WFP food requirement over the five-year period amounts to 546,000 MT of wheat, valued at US\$86 million. After three-and-one-half years of operations the program is resourced at 197,145 mts (none from the United States), 36 percent.

5. In view of the serious resourcing shortfall of its Country Program, WFP has renewed its request for a contribution of 10,000 MT of Dry Skimmed Milk powder (DSM) for its activities in China. After discussion with Government of China (GOC), it is suggested that the DSM be exchanged for wheat to be released from GOC stocks and made available to WFP CP activities. The milk powder itself would be used in the school feeding effort. Exchange mechanisms with wheat from GOC warehouses in the project areas have been successfully carried-out in the past. Its main advantage is that it reduces the internal transport and handling costs, which are borne by the GOC. Based on the ratio of WFP cost for the two commodities, the GOC will make available 200,000 MT of standard quality wheat in exchange for 10,000 MT of DSM. The GOC also agrees to bear the cost of ocean freight as well as all costs related to the internal transportation of the wheat equivalent to the final

distribution point.

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Comment from Ambassador Hall

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16. I would like to see China become a major donor to WFP. A timely U.S. donation of milk powder is a win-win proposition, especially given China's offer to pay for the transportation costs. It will help WFP garner more commodity support for its Country Program, thus helping WFP to leave China at the end of 2005 on the high note that it met its commitments. This in turn will engender an excellent climate-of-opinion in WFP's dialogue with China becoming a major donor in the future. Hall

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